

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes

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Docket No. R2000-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
WITNESS: JAMES F. CALLOW (USPS/OCA-T6-1-13)
(June 19, 2000)

The Office of the Consumer Advocate hereby submits the answers of James F. Callow to interrogatories USPS/OCA-T6-1-13, dated June 5, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T6-1-13

USPS/OCA-T6-1

In Part II, Section I.A of your testimony, you state that "Households Prefer Longer Periods of a Stable Single-Piece First-Class Rate." Please elaborate upon any studies that support this contention. In particular:

- a. Is this section of testimony based on any surveys or other studies of household mailers that indicate preference for these "longer periods of stable rates"? If so, please provide documentation for these studies.
- b. Is this section of your testimony based on any focus group studies that indicate preference for the longer periods of stable single-piece First-Class Rates? If so, please provide notes, transcripts, etc., documenting these focus group studies.

RESPONSE TO USPS/OCA-T6-1

(a) - (b) No. OCA attempted to elicit this information from the Postal Service, to no avail. See Tr. 21/9090. Response of the United States Postal Service to Interrogatory of the Office of the Consumer Advocate, OCA/USPS-54.

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USPS/OCA-T6-2

What percent of the household single-piece First-Class mailers prefer the larger rate increases every other rate case? Please provide the data source and backup documentation for this figure. If you do not have data necessary, so state, and please state what you believe to be a rough order of magnitude (ex., 10-20 percent) for this figure.

RESPONSE TO USPS/OCA-T6-2

To my knowledge, there is no data available to answer this question. See my response to USPS/OCA-T6-1(a) - (b). Any information on the preferences of consumers is based upon correspondence from consumers, or phone conversations.

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USPS/OCA-T6-3

Part II, Section I.A.2, is titled "Longer periods of rate stability minimize confusion to household mailers."

- a. What is the proportion of households for which the primary mailers of the household are generally confused due to a rate increase? Please explain how you arrive at this figure. If you have no data on which to rely for this response so state and please state what you believe to be a rough order of magnitude (ex., 10-20 percent) for this figure.
- b. Do you have any data to indicate how these confused household mailers cope with non-postal price increases (for example, gasoline prices)? Do any of these non-postal price increases occur with greater frequency than general postal rate increases?

RESPONSE TO USPS/OCA-T6-3

(a) I have not seen any data of the type requested that would permit computation of the proportion of households confused by postal rate changes. Nevertheless, as a practical matter, it seems that any rate change, either positive or negative, could cause a period of confusion for some consumers. This is likely where households possess several different First-Class stamps, such as current single-piece stamps, "make-up" rate First-Class stamps, and non-denominated or letter-denominated stamps marked "First-Class." An indication of the magnitude of this situation is the 239 million pieces of "short-paid" single-piece letters. See Tr. 21/9166. Response of the United States Postal Service to Interrogatory of the Office of the Consumer Advocate, OCA/USPS-106.

(b) No. Yes, I believe prices for gasoline change more frequently than postal rates. With respect to confusion over changes in non-postal prices for consumer

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goods, such as gasoline, the price is known by the consumer at the time of purchase, and there is no need for the consumer to remember the price or re-value the item at the time of use.

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USPS/OCA-T6-4

Consider the household mailers who are generally confused by, say, a one-cent increase every three years in the single-piece First-Class rate.

- a. What is the approximate size of this group of household mailers?
- b. Were you able to determine what proportion of this group would be less confused if they would sometimes receive a rate increase and sometimes not at the conclusion of an omnibus rate case? Please explain and provide any relevant data and studies supporting your response.

RESPONSE TO USPS/OCA-T6-4

(a) - (b) See my response to USPS/OCA-T6-3(a) - (b).

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USPS/OCA-T6-5

Please refer to Part II, Section I.A.2 of your testimony which is titled "Longer periods of rate stability minimize confusion to household mailers." In this section you assert that longer periods between rate increases would decrease confusion for household mailers.

- a. Suppose that rates would never again be increased for single-piece First-Class rates. Would this lead to less or more confusion for those household mailers who are confused by rate increases? Please explain.
- b. Please define the use of the word "minimize" in the context of the title of Part II, section I.A.2 of your testimony.

RESPONSE TO USPS/OCA-T6-5

(a) I am not aware of data on "confused" households. Not changing the single-piece First-Class rate would seem to minimize confusion. See my response to USPS/OCA-T6-3(a) - (b).

(b) I use the term "minimize" to indicate that households become more familiar with postal rates over time and that changing such rates could create a period of confusion.

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USPS/OCA-T6-6

On page 4[9] lines 13-14 of your testimony you state, "Advances in the technology of mail processing since implementation of the surcharge have made the surcharge obsolete with respect to low aspect ratio mail..." Separately list each technological advance to which you are referring and state how each advance specifically affects low aspect ratio mail piece costs such that the nonstandard surcharge would be "obsolete. "

RESPONSE TO USPS/OCA-T6-6

The statement concerning "[a]dvances in the technology of mail processing since implementation of the surcharge" in my testimony refers to advances in technology generally, and over time. Since implementation of the surcharge, mail processing technology has progressed from manual processing, through Letter Sorting Machines (LSMs), to the present, where almost all letter mail is now processed on automated mail processing equipment. It is this advance in technology that permits the Commission to conclude: "It is well-accepted that the Service's processing equipment is now far more sophisticated than when the surcharge was introduced." See PRC Op. R97-1, para. 5227.

Moreover, the Postal Service's automated mail processing equipment is not designed to cull-out nonstandard mailpieces based upon aspect ratio. Tr. 5/2078 (Kingsley). The operating manuals for the current generation of OCRs and BCSs do not list aspect ratio as a limitation of the equipment. Tr. 7/3221 (Miller). Consequently, it might be fair to deduce that the Postal Service's automated mail processing equipment has some toleration for mailpieces that are nonstandard by virtue of their aspect ratio.

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USPS/OCA-T6-7

On page 5[7] lines 15-16 of your testimony you state that "The Postal Service does not 'fully understand' how the aspect ratio affects mail processing operations." Please confirm that the OCA does not "fully understand" how low aspect ratios affect mail processing operations. If not confirmed, please explain.

RESPONSE TO USPS/OCA-T6-7

The statement quoted at page 57 of my testimony captures the meaning of Postal Service witness Miller's testimony (USPS-T-24) with respect to the Postal Service's understanding of the effect of aspect ratio on mail processing operations. See USPS-T-24, at 21, lines 27-29. Moreover, it is clear the Postal Service has no intent to remedy its limited understanding by studying mail processing operations as they relate to aspect ratio. *Id.* at 21-22. Consequently, OCA's understanding as to how aspect ratio affects mail processing operations involving low aspect ratio letter mail is necessarily limited by the Postal Service's unwillingness to "fully understand" such affects.

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USPS/OCA-T6-8

Have you ever conducted any field studies designed to determine the extent to which low aspect ratio nonstandard mail pieces are successfully processed on automation? If so, please provide all supporting documentation related to that study. If not, why not?

RESPONSE TO USPS/OCA-T6-8

No. To the best of my knowledge, neither has the Postal Service. In fact, the Postal Service maintains that it would be "very difficult to obtain in a 'real world' environment" data on nonstandard letters because the volume is small and such letters are mixed with other letters in the mail processing network. Tr. 7/3132 (OCA/USPS-T24-5(e)-(f)). See also my response to USPS/OCA-T6-7.

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USPS/OCA-T6-9

On page 5[3] lines [5-7] of your testimony you state, "The increasing sophistication of automated equipment permits certain nonstandard letter mail, previously unsuited for mechanized processing, to be processed on the automated equipment."

Please describe the "certain nonstandard letter mail" to which you are referring. Also describe in specific, technical detail the "increasing sophistication" of automated equipment and the manner in which each specific increase in sophistication ensures that mail "previously unsuited for mechanized processing" can now be "processed on the automated equipment."

RESPONSE TO USPS/OCA-T6-9

The statement quoted at page 53 of my testimony is the first sentence of a paragraph, and represents a general statement. The remainder of the paragraph discusses the processing of low aspect ratio letter mail. With respect to the increasing sophistication of automated mail processing equipment, please see my response to USPS/OCA-T6-6.

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USPS/OCA-T6-10

On page 5[3] lines [11-13] you state:

"In fact, it has been shown that some seasonal greetings that are square in shape (aspect ratio 1:1) are processed either partially, or entirely, on automated equipment." This comment refers to an analysis performed by witness Haldi (NDMS-T-1) in Docket No. R97-1.

- a. Please confirm that this analysis consisted of a sample size of 10 5"x5" Christmas cards (Docket No. R97-1, NDMS-T-1, page 11). If not confirmed, please explain.
- b. Do you consider an analysis that involves a sample size of 10 to be statistically valid? If so, please explain. If not, please explain how this analysis has "shown" (as you put it) anything.
- c. Please confirm that 1 of the 10 envelopes was damaged during processing (Docket No. R97-1, NDMS-T-1, page 12). If not confirmed, please explain.
- d. Do you consider a damage rate of 10% to be acceptable? If you do, please explain why. If you do not, what would you consider to be an acceptable damage rate?
- e. Please confirm that, of the remaining nine undamaged cards, one card was never received (Docket No. R97-1, NDMS-T-1, page 11, footnote 8). If not confirmed, please explain.
- f. Is it possible that the mail piece described in (e) was also damaged during processing such that the mail piece was destroyed and could not be delivered? If your answer is no, please explain.
- g. Please confirm that the presence of a barcode on a mail piece does not necessarily mean that this mail piece was successfully processed on automation through the entire postal automation mail processing network. If not confirmed, please explain.
- h. Please confirm that witness Haldi's study did not prove that any of the 10 nonstandard mail pieces were successfully processed through the entire postal automation mail processing network. If not confirmed, please explain.

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RESPONSE TO USPS/OCA-T6-10

(a) Confirmed.

(b) No. Both the Commission and witness Haldi characterized the mailing of 10 Christmas cards with envelopes that were square in shape (aspect ratio of 1:1) as an "experiment," and a "small-scale experiment," respectively. As is evident in witness Haldi's library reference, LR-NDMS-1, from Docket No. R97-1, nine were received with cancellation and barcodes, evidencing some automated mail processing. It is this "experiment" that shows, and permits the Commission to conclude, that "automation capabilities have expanded, at least for low aspect ratio mail pieces." See PRC Op. R97-1, para. 5227. It also shows that witness Miller's assumption that "all nonstandard letters are processed manually," see USPS-T-24, at 22, is not realistic, and should be replaced.

(c) Confirmed.

(d) No. Since I do not consider a mailing of 10 low aspect ratio letters statistically valid, I would not consider one damaged envelope out of 10 to be a statistically valid measure of the rate of damage of low aspect ratio letter mail.

(e) Confirmed.

(f) There are many other possibilities as well, including the possibility, as explained by witness Haldi, that the Christmas card never received was never actually mailed. See Docket No. R97-1, NDMS-T-1, at 11, note 8. So is the possibility that the card in question was lost at the point of collection. Similarly, there is the possibility that

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the card in question was never delivered by the carrier during the busy holiday season. The number of possibilities would seem limitless, and there appears no way to determine the true cause of the missing card.

(g) Confirmed. What the presence of a barcode does show, however, is that the Postal Service's assumption of 100 percent manual processing for low aspect ratio letter mail is not realistic.

(h) Confirmed. What witness Haldi's "small-scale experiment" does show is that there is some automated processing of low aspect ratio letter mail and, as a result, the Postal Service's assumption of 100 percent manual processing for such mail is unrealistic.

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USPS/OCA-T6-11

In Table 17 on page 6[3] you calculate several mail processing unit costs for low aspect ratio letters given a variety of inputs.

- a. Please confirm that every mail processing unit cost value listed in Table 17 is greater than the average single-piece letter mail processing unit cost of 12.296 cents that you reference on page 6[4] line [1]. If not confirmed, please explain.
- b. Please confirm that the cost cells in Table 17 indicate that nonstandard letters with low aspect ratios do indeed incur additional mail processing costs. If not confirmed, please explain.
- c. Given the results shown in Table 17, how can you justify eliminating the nonstandard surcharge for low aspect ratio letters when the results clearly indicate that these mail pieces incur additional costs?

RESPONSE TO USPS/OCA-T6-11

(a) Confirmed.

(b) Confirmed. The amount of the addition to the unit cost of processing standard letter mail caused by the low aspect ratio characteristic is the difference between each unit cost shown in Table 17 and 12.296 cents.

(c) While every amount in Table 17 is greater than the cost of processing standard-size mail, it is also true that every amount is far below the Postal Service's proposed test year single-piece rate of 34 cents. Consequently, low aspect ratio nonstandard letter mail would still provide a substantial per unit contribution to institutional costs, without materially affecting the cost coverage of single-piece First-Class Mail. Moreover, the estimated maximum revenue loss to the Postal Service from eliminating the 11 cent surcharge would be negligible, at \$6,899,000.

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USPS/OCA-T6-12

In Table 17, an input to your cost analysis is the probability that a mail piece would be faced properly. You use a range from 0.5 to 1.0.

- a. Please confirm that these percentages are not based on any "real world" studies conducted at postal facilities. If not confirmed, please explain.
- b. Please confirm that the use of percentages lower than 0.5 would increase the costs found in columns [3], [4], and [5]. If not confirmed, please explain.
- c. Please confirm that your use of 0.5 as a starting point does not consider mail piece characteristics such as: the distribution of envelope weight, the distribution of mail piece weight within the envelope, the weight of stamps and ink on the mail piece, etc. If not confirmed, please explain.
- d. Please confirm that your use of 0.5 as a starting point does not consider the fact that a given mail piece processed on AFCS's and other postal equipment must pass through multiple systems before reaching the sortation bins. If not confirmed, please explain.

RESPONSE TO USPS/OCA-T6-12

(a) Confirmed. See my testimony, OCA-T-6, Part III, at 58-59, for the origin of the figure of 50 percent, and the range of 50 to 100 percent.

(b) Confirmed.

(c) Confirmed. However, it should be noted that the importance, if any, of the distribution of envelope weight, the distribution of mailpiece weight within the envelope, the weight of stamps and ink on the mailpieces in question—low aspect ratio nonstandard letters weighing one ounce or less—is unknown, since the Postal Service has no information on the relationship between the weight of a mailpiece (or the distribution of weight within a given mailpiece) and its aspect ratio. See Response of

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the United States Postal Service to Interrogatory of the Office of the Consumer Advocate, OCA/USPS-134.

(d) Not confirmed. I account for the fact that low aspect ratio letter mail initially sorted by the AFCS may nevertheless be rejected during subsequent automated processing operations by increasing the reject rate in each automated operation. See OCA-LR-I-3, Part III, at page I-39.

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USPS/OCA-T6-13

Have you conducted any research to determine the extent to which your proposal would affect the volume of low aspect ratio nonstandard size letters that would be entered as collection mail into Postal Service facilities? If not, why not?

RESPONSE TO USPS/OCA-T6-13

No. I have not conducted any research on the question posed. However, the additional volume of low aspect ratio nonstandard size letters entered as collection mail is likely to be small. In the test year, the volume of nonstandard single-piece First-Class letter-shaped mailpieces is 62,718,000. See OCA-T-6, Part III, at 67. Consequently, 62,718,000 would appear to be a reasonable maximum number of low aspect ratio nonstandard letters, since not all nonstandard single-piece First-Class letter-shaped mailpieces are low aspect ratio letters. Moreover, to the extent that individual mailers are unaware of the nonstandard surcharge, they have no incentive to increase the volume of low aspect ratio nonstandard letters entered as collection mail. And, it would appear that individual mailers who unknowingly enter low aspect ratio nonstandard letters may never be informed that such letters are nonstandard. See Docket No. R97-1, NDMS-T-1 (Haldi), at 12, where witness Haldi states that none of the Christmas cards mailed in his experiment were received with the marking "postage due."

DECLARATION

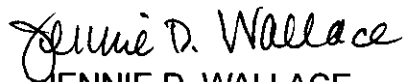
I, James F. Callow, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T6-1-13 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed 6-18-00

James F Callow

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


JENNIE D. WALLACE

Washington, DC 20268-0001
June 19, 2000